The Borden Company

ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

ANNUAL REPORT

For the fiscal year ended December 31, 1934

New York *March 1935*

THE BORDEN COMPANY

DIRECTORS

Howard Bayne
*Lewis M. Borden
L. Manuel Hendler
Robcliff V. Jones
†John Le Feber
Edward B. Lewis
John W. McConnell
Albert G. Milbank
Arthur W. Milburn
Thomas I. Parkinson
Beverley R. Robinson
Stanley M. Ross
George M. Waugh, Jr.

*Died Feb. 24, 1935
†Died Sept. 15, 1934

OFFICERS

Albert G. Milbank, *Chairman Board of Directors*
Arthur W. Milburn, *President*
Patrick D. Fox, *Vice-President*
Edward B. Lewis, *Vice-President*
Walter Page, *Vice-President*
Ralph D. Ward, *Vice-President*
George M. Waugh, Jr., *Vice-President*
Everett L. Noetzel, *Treasurer*
Walter H. Rebman, *Secretary*
St. John W. Davis, *General Controller*
George Bittner, *Assistant Treasurer*
Harold K. Kramer, *Assistant Treasurer*
Frederick W. Schwarz, *Assistant Treasurer*
Theodore D. Waibel, *Assistant Secretary*

EXECUTIVE OFFICES

The Borden Company
350 Madison Avenue, New York City
(Subsidiary and Territorial Offices not included)

REGISTERED OFFICE

15 Exchange Place, Jersey City, N. J.

Transfer and Dividend Disbursing Agent
The Chase National Bank of the City of New York
11 Broad Street, New York City

Registrar, Bankers Trust Company, 16 Wall Street, New York City
Counsel, Milbank, Tweed, Hope & Webb, 15 Broad Street, New York City
Auditors, Haskins & Sells, 22 East 40th Street, New York City

To the Stockholders of The Borden Company:

There are presented herewith Financial Statements, together with Accountants' Certificate of Messrs. Haskins & Sells, setting forth the Operating Results for 1934 and the condition of the Company at the close of that year.

While these statements reveal most unsatisfactory net income, nevertheless, they continue to reflect the Company's financial strength.

The year 1934 was in many respects, and in most divisions of our business, one of progress. A notable exception was that of fluid milk distribution. Here, as in the previous year, faulty control laws with jurisdictional conflict of administration and continued breakdown of enforcement operated to create market confusion and practices of a nature that brought about the most unsatisfactory results so far experienced in this division of the business.

Just as long as control laws and their administration make it possible for certain groups to operate in a manner to defeat the main objectives of the laws, and to the disadvantage of their competitors in the same territory, just so long will chaotic and destructive market conditions and practices continue.

Our criticism is not of control laws, as such, but of what we believe to be the unwise and unfair features of these laws as now written, and in some instances what seems to be the exercise of faulty judgment in their administration. If it be true that some form of public control is to continue, then relief from the oppressive features of these laws must come as a result of their wise amendment and a change of administration policies involving among other things a recognition of the fact that the inter-state problems involved have such large effect on the administration of all phases of the law as to justify the substitution of a territorial for a local viewpoint.

Apart from all that might be accomplished by the foregoing, the entire situation would be immediately improved should the dairy farmers affected, recognizing their common interests, unite in a manner to present a solid front on prices with a common sharing of results. Such action would make most difficult, if not impossible, many of the present day practices of an undermining nature and would prove a great stabilizing factor. Some states are recognizing that enforcement of equal wage rates within a given market area is necessary to the bringing about of market stability and the avoidance of destructive practices. We believe this is wise. Constant thought and effort on the part of all concerned are being applied to a solution of these problems which affect all factors in a great industry and not ourselves only.

Sales

Sales for the year amounted to $215,723,659.07 compared with $186,301,203.17 for 1933, a sales value increase of about 16 per cent and a sales tonnage increase of about 8 per cent. All divisions except that of fluid milk and cream distribution enjoyed increased sales volume.

Net Income and Earnings per Share

Net Income of $4,490,044.80 is 2 per cent of sales and $1.02 per share on all of the Capital Stock outstanding December 31, 1934. This compares with Net Income of $4,646,443.78 and $1.05 per share in 1933.

Net Income on Canadian and foreign sales has been adjusted to the United States dollar value.

Taxes of every nature for the year 1934 amounted to $3,714,186.72 or 84¢ per share of stock outstanding.

Net Working Capital

This item at the close of the year stood at $43,332,687.23 compared with $41,445,809.05 on December 31, 1933.

The ratio of Current Assets to Current Liabilities on December 31, 1934 was $4.28 to $1.00, which compares with a ratio of $4.80 to $1.00 on December 31, 1933.

Since foreign exchange values in countries in which we have capital employed were at par or better at the year end, net working capital in foreign jurisdictions is reported at par in United States dollars.

Cash on hand was in excess of the total of all Current Liabilities and amounted to $17,313,375.04 on December 31, 1934, which compares with $13,611,848.55 on hand December 31, 1933.

Frozen and restricted deposit funds, aggregating $174,392.32 gross at December 31, 1934, are not included in cash. Reserve provision is made for the estimated loss involved and the net balance is carried under Miscellaneous Assets.

Inventories of $19,365,166.13 compare with $19,936,770.61 on December 31, 1933. All inventory items are, as usual, valued at the lower of cost or market.

Marketable Securities of high investment rating, a substantial proportion being United States Government securities, and including material holdings of Canadian Government securities, taken at their cost, amounted to $6,836,695.04 on December 31, 1934. Their market value of $7,087,283.53 compares with $6,241,014.35 on December 31, 1933 of securities then owned.

While collections are continuing to show improvement, they are not yet normal. However, all credit losses have been charged off and adequate Reserves against future losses have been created by charges to operations, thus leaving Receivables in a healthy condition.

Recommended Changes in Capital Structure
Write-off of Trade-Marks, Patents and Good-Will
Adjustment of Book Values of Property, Plant and Equipment

It is recommended by the Board of Directors that, without changing the number of shares authorized and outstanding, the par value of the authorized and outstanding shares of Capital Stock of The Borden Company be reduced from $25 per share to $15 per share. This would result in the creation of $43,967,040.00 of additional Surplus which it is recommended be treated upon the books as Capital Surplus. A portion of this Capital Surplus so created and aggregating $28,955,448.14 would be used to immediately improve the Balance Sheet and better safeguard the future. The balance of $15,011,591.86 remaining in Capital Surplus after such action would, we believe, amply provide for additional adjustments of this nature and leave a very substantial balance for such future uses as the Board of Directors, acting within its authority, might deem wise and proper.

$6,999,999.00 would be applied to a reduction of the present book value of Trade-Marks, Patents and Good-Will of $7,000,000.00 to a nominal value of $1.00, although present book value of Good-Will is less than actual cost and greatly less than its real value. In so doing we would pursue what we believe to be a wise, proper and conservative course consistent with present day thought and custom.

Good-Will would continue to serve to as great advantage with a $1.00 book valuation as with its former one of $7,000,000.00. Good-Will is a term principally expressive of established business reputation as applying to quality, service, business practices and policies. Its book value, therefore, is dependent upon the character, ability, experience and other necessary qualifications of the men and women constituting the organization—here we have another intangible asset of prime importance not enjoying as much as a nominal valuation on the Balance Sheet although meriting a high rating.

The members of this organization are charged with the responsibility of fostering and developing the intangibles and so employing the tangible assets as to provide a fair and stable market for the farmer producer; to render high class service, quality and protection at a fair price to the consumer; to fairly compensate all workers, and fairly reward the stockholders while protecting the future best interests of all four classes.

Since these objectives must be accomplished under keenly competitive and already much changed and fast changing conditions, management must plan the removal of obstacles in the path of attainment.

Further consideration leads to a study of the tangible assets. Here we find that, except for Property, Plant and Equipment conditions and values, no obstacles to the attainment of the above mentioned objectives are seen. Even here nothing presently unbearable exists but as with Trade-Marks, Patents and Good-Will immediate adjustment of values seems wise, proper and fully justified in all respects.

In this connection Stockholders will recall that a previous adjustment of these book values was made at the close of 1931—the facts and reasons therefor being set forth in the Report to Stockholders for that year. The effect of similar developments beyond any expectations during the intervening years have of themselves, together with their influence on the determination of what constitutes future fitness, resulted in a much greater amount of additional unserviceable and excessive property values than was foreseen in 1931. This has had large influence on the scope and size of the Directors' recommendations.

If the Stockholders approve these recommendations, Earned Surplus of $22,474,064.06 on December 31, 1934 will be left intact, and in addition there will remain Capital Surplus of $15,011,591.86 as previously referred to herein. Such procedure seems far more advisable than partial or gradual treatment of this whole matter by use of Earned Surplus with its probable effect on financial policies for some period of years ahead.

In the judgment of the Directors, their recommendations, if approved and made effective, would not adversely affect the real value of the outstanding stock.

In the event that the adjustments of assets as recommended are made, the remaining net tangible asset or book value based on Capital Stock and Surplus only as of December 31, 1934 would be $23.53 for each share of Common Stock of $15 par value then outstanding.

The asset or book value of Common Stock is of relatively small importance when measuring market values since common stock principally represents a share in the earning power of a corporation. However, this does not mean that the common stockholder does not expect management to fairly and properly evaluate all assets—fixed as well as current. In so doing he again rightfully expects that nothing will be done or left undone that unfairly or improperly inflates or deflates income, hence the adjustments herein recommended. The effect on operating results of these adjustments, if made, would be an estimated reduction of $900,000.00 in annual depreciation charges as affecting 1935 and subsequent years.

In making their recommendations the Directors have, of course, taken all of the foregoing into consideration and as well the fact that a price of industrial progress is obsolescence following closely in its wake, and unwillingness to pay today's price therefor may result in a restricted future and an ultimately higher price.

The Balance Sheet at December 31, 1934 reflects the reclassification and segregation as of that date of all Property, Plant and Equipment assets. As a result thereof the net depreciated and adjusted values of Operating

Properties and of Unserviceable Properties are shown separately. The latter includes what now seems to be all questionable property values of every nature as of that date.

The net depreciated and adjusted value of Operating Property, Plant and Equipment as of December 31, 1934 is $66,734,416.93. This amount includes all assets of this nature in active use. Measured practically, we believe it represents fair present day aggregate values.

The net depreciated and adjusted value of Unserviceable Property, Plant and Equipment as of December 31, 1934 is $21,955,449.14.

The total of these two classifications (Operating and Unserviceable) on December 31, 1934 of $88,689,866.07 compares with $92,251,249.37 on December 31, 1933.

If the Stockholders act favorably on the recommendations of the Directors, the net depreciated and adjusted value of Unserviceable Property, Plant and Equipment referred to above, amounting to $21,955,449.14 of which net amount $11,147,172.99 represents values of unserviceable, non-operating, and obsolete properties and $10,808,276.15 the amount of excess valuations by which operating properties have been adjusted, will be entirely written off the books.

In this event no balance sheet recognition will be given the unknown salvage value of these Unserviceable assets for the reason that salvage is difficult to estimate and depends so much on the time of disposition and the conditions then prevailing.

Such salvage values as are subsequently realized will be treated as Capital Surplus credits. As there develops more property values of a nature warranting their inclusion under Unserviceable classification, as there will, the net values involved will be treated as a Capital Surplus charge. In this connection, and as previously stated, we believe the credit balance remaining in Capital Surplus, when and as created, after the foregoing recommended property adjustments and the writing off of Trade-Marks, Patents and Good-Will, will amply provide for further adjustments of this nature, leaving a very substantial balance for similar eventualities that cannot now be foreseen or such other proper disposition as the Board of Directors may authorize.

Budget of Capital Expenditures

The Budget of Capital Expenditures for 1935, as approved by the Board of Directors, provides fully for necessary replacements and includes sizable expenditures in the interest of further modernization and cost reduction. The aggregate of this Budget falls within the estimated property depreciation charges for the year.

Capital Stock

There was no change in either the Authorized or the Outstanding Capital Stock during the year.

The capital structure continues without any outstanding securities senior to the Common Stock of The Borden Company.

The stock outstanding December 31, 1934 was held by 39,761 Stockholders, with an average holding of 111 shares, which compares with 37,916 Stockholders with an average holding of 116 shares on December 31, 1933.

The number of Stockholders as of December 31st for each of the past eight years follows:

1927	5,664
1928	9,482
1929	17,167
1930	24,383
1931	32,383
1932	36,236
1933	37,916
1934	39,761

The work of the Organization, as previously referred to, is deserving of commendation and it is the privilege of the Directors and Officers to give expression thereto.

Respectfully submitted,

Arthur W. Milburn

President

THE BORDEN COMPANY *and all* SUBSIDIARY COMPANIES

Consolidated Balance Sheet, December 31, 1934

ASSETS

CURRENT ASSETS:		
Cash	$ 17,313,375.04	
Marketable Securities—At Cost (Market Value $7,087,283.53) . .	6,836,695.04	
Receivables (Including salary advances to employees of $45,319.90) — Less Reserve for Doubtful Accounts of $1,917,539.99	13,045,773.72	
Finished Goods—at the Lower of Cost or Market	13,582,179.77	
Raw Materials and Supplies — at the Lower of Cost or Market . . .	5,782,986.36	$ 56,561,009.93
MORTGAGES AND OTHER RECEIVABLES — Not Current (Resulting principally from Sales of Property)		2,251,267.75
PROPERTY, PLANT AND EQUIPMENT Operating Properties (See comments page 6)	$106,179,383.55	
Less Reserves for Depreciation . .	39,444,966.62	66,734,416.93
UNSERVICEABLE PROPERTIES AND EXCESS VALUES by which Operating Property Accounts have been adjusted—Less Reserves of $18,241,606.46 (See comments page 6)		21,955,449.14
PREPAID ITEMS AND MISCELLANEOUS ASSETS . .		1,004,390.78
TRADE-MARKS, PATENTS AND GOOD-WILL (At less than actual purchase cost)		7,000,000.00
TOTAL		$155,506,534.53

The Borden Company *and all* Subsidiary Companies

Consolidated Balance Sheet, December 31, 1934

LIABILITIES

Current Liabilities:		
Accounts Payable	$ 10,076,109.71	
Accrued Accounts:		
Taxes (Including Income Taxes—Estimated)	1,743,127.54	
Other Items	1,409,085.45	$ 13,228,322.70
Deferred Credits		343,711.42
Mortgage—Madison Avenue Office Building Property (Due December 1, 1935)		1,700,000.00
Total		$ 15,272,034.12
Reserves:		
Contingency Reserve	$ 2,664,009.48	
Insurance and Other Operating Reserves	5,178,826.87	7,842,836.35
Capital Stock—The Borden Company:		
Common $25.00 par (Authorized 8,000,000 shares)		
Issued 4,417,958 shares		
Less Treasury Stock 21,254 "		
Outstanding 4,396,704 "		109,917,600.00
Earned Surplus		22,474,064.06
Total		$155,506,534.53

The Borden Company *and all* Subsidiary Companies

Statement of Consolidated Net Income and Surplus

For the Year Ended December 31, 1934

Net Sales	$215,723,659.07
Cost of Sales and Expenses:	
(Including provision for depreciation in the amount of $7,502,982.43, insurance, property taxes and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income)	210,742,194.81
Net Operating Profit	$ 4,981,464.26
Other Income (Less Charges for Interest)	395,899.85
Gross Income	$ 5,377,364.11
Deduct—Income Taxes (Estimated)	887,319.31
Net Income	$ 4,490,044.80
Earned Surplus, January 1, 1934	25,018,745.66
Gross Surplus	$ 29,508,790.46
Surplus Charge—Dividends Paid in Cash During the Year 1934	7,034,726.40
Earned Surplus—December 31, 1934	$ 22,474,064.06

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

22 EAST 40TH STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

THE BORDEN COMPANY:

We have made an examination of the consolidated balance sheet of THE BORDEN COMPANY and its subsidiary companies as of December 31, 1934, and of the related statement of consolidated net income and surplus for the year 1934. In connection therewith, we made a review of the accounting methods, examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control, and made a general review of the operating and income accounts for the year.

We verified the accounts representing cash balances and securities owned, either by examination of such assets or by obtaining certifications from depositaries.

The charges to property accounts have been controlled by a conservative policy. Adequate reserves have been provided for property depreciation for the year. Certain changes in property classifications, etc., are described in the President's comments on page 6 of the annual report to stockholders.

The inventories of finished goods and raw materials and supplies represent quantities shown by inventory records which are adjusted from time to time to agree with physical inventories taken by the companies. The inventory records were reviewed by us and appear to be correct. The inventory valuations are based upon the lower of cost or market.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet and related statement of consolidated net income and surplus of THE BORDEN COMPANY and its subsidiary companies fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1934, and the results of their operations for the year.

HASKINS & SELLS.

New York, March 1, 1935.

CORPORATE ORGANIZATION AND SCOPE

The business of the Company falls into four general divisions. In conformity with this there were created during the year 1929 four major subholding companies to conduct and co-ordinate the operations of these four general divisions. For similar reasons and because of the extent of operations throughout all of Canada, which operations embrace the activities of all four general divisions, Borden's Ltd, a Dominion Corporation, was organized in 1930.

The Borden Company (a New Jersey Corporation), either directly or through its subsidiaries, owns 100% of the stock of all subsidiaries including the major sub-holding companies and Borden's Ltd.

The four major sub-holding companies are as follows:—

Borden's Food Products Company, Inc. *Food Products Group*—manufacture and sale since 1857 of Eagle Brand as well as other brands of condensed milk; also evaporated, malted and dry milk; casein products, caramels, mince meat, dried fruit juices, etc.

Business of the above nature is conducted throughout the United States, Canada and in Export Markets.

Borden's Dairy Products Company, Inc. *Fluid Milk Group*—purchase and distribution by a system of wagon deliveries of milk, cream, butter, eggs, etc.

Business of the above nature is conducted in the States of Arizona, California, Connecticut, Illinois, Indiana, Kansas, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

Borden's Ice Cream & Milk Company, Inc. *Ice Cream Group*—manufacture and sale of ice cream and allied products.

Business of the above nature is conducted in the States of California, Connecticut, Delaware, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, West Virginia, Wisconsin, and in the Provinces of Ontario and Quebec in Canada.

Borden's Cheese & Produce Company, Inc. *Produce Group*—purchase, production and sale of farm produce (butter, eggs, etc.) as a source of supply for our own wagon distribution and at wholesale; also manufacture and sale of package, loaf, bulk and fancy cheeses.

Business of the above nature is conducted throughout the United States, Canada and in certain Export Markets.

BORDEN ASSOCIATED COMPANIES

Borden's

1857

PRINTED IN U.S.A.